

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 EURE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /087 W
----- 037052

P R 191625Z JAN 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 5205

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL MILAN

AMCONSUL NAPLES

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

SUMMARY. BALANCE OF PAYMENTS FOR DECEMBER REGISTERED
DEFICIT OF \$489.4 MILLION AND 1975 BALANCE OF PAYMENTS
SHOWED \$1,644.5 MILLION CUMULATIVE RECORDED DEFICIT.
FOR ALL 1975 ADJUSTED BALANCE OF PAYMENTS (EXCLUDING
\$949 MILLION IN EUROMARKET LOAN REPAYMENTS) SHOWED
CUMULATIVE DEFICIT OF \$695.6 MILLION. HEAVY BOI
EXCHANGE MARKET INTERVENTION DURING ALL DECEMBER
RESULTED IN \$427 MILLION NET SALES OF FOREIGN
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EXCHANGE. FROM JANUARY 1 THROUGH 15, PROGRESSIVELY

LARGER NET MARKET INTERVENTION SALES HAVE BEEN MADE EACH MARKET DAY TOTALLY \$312.5 MILLION DURING PERIOD. END SUMMARY.

1. MONETARY MOVEMENTS DATA FOR DECEMBER RECORDED DEFICIT OF \$489.4 MILLION. CHANGES IN BOI RESERVES DURING PERIOD WERE DECREASE IN CONVERTIBLE CURRENCY HOLDINGS OF \$424.8 MILLION, INCREASE IN SHORT-TERM LIABILITIES BY \$34.7 MILLION, DECREASE IN MEDIUM AND LONG-TERM LIABILITIES BY \$24.8 MILLION. NO CHANGE IN SDR HOLDINGS WAS RECORDED. COMMERCIAL BANKS' NET FOREIGN DEBT REGISTERED INCREASE OF \$54.7 MILLION.

2. RECORDED BALANCE OF PAYMENTS CUMULATIVE DEFICIT FOR 1975 OF \$1,644.6 MILLION WAS FINANCED BY DECREASE IN BOI FOREIGN EXCHANGE ASSETS BY \$1,887.4 MILLION, DECREASE IN SDR HOLDINGS OF \$124.3 MILLION, DECREASE IN BOI SHORT-TERM LIABILITIES OF \$32.0 MILLION, INCREASE IN BOI MEDIUM AND LONG-TERM LIABILITIES OF \$470.7 MILLION, AND DECREASE IN SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$805.8 MILLION. FOR SAME PERIOD ADJUSTED BALANCE OF PAYMENTS (EXCLUDING \$949 MILLION IN EUROMARKET LOAN REPAYMENTS) SHOWED CUMULATIVE DEFICIT OF \$695.6 MILLION.

3. ACCORDING TO DR. CESARE GERONSI, CHIEF FOREIGN EXCHANGE SECTION BOI, HEAVY BOI EXCHANGE MARKET INTERVENTION IN DECEMBER (RESULTING IN \$427 MILLION NET SALES OF FOREIGN EXCHANGE DURING MONTH) HAS SO FAR CONTINUED FROM JANUARY 1 THROUGH 15. FROM JANUARY 1 THROUGH 15 PROGRESSIVELY LARGER NET MARKET INTERVENTION SALES HAVE BEEN MADE TOTALLY \$312.5 MILLION IN FOREIGN EXCHANGE. ON LAST DAY OF PERIOD, JANUARY 15, NET SALES WERE \$89 MILLION ALONE. GERONSI ATTRIBUTED WEAKNESS OF LIRA DIRECTLY TO SIDE EFFECTS OF GOVERNMENT CRISIS. GERONSI SAID THAT NO OTHER EXPLANATION WAS TENABLE AND THAT SHORT-TERM WEAKENING OF LIRA IS PRACTICALLY "INEVITABLE." HE VENTURED TO GUESS, ALTHOUGH INDICATING THAT THE BOI DID NOT HAVE DEFINITIVE EVIDENCE, THAT CAPITAL FLIGHT IS ACCELERATING. LIMITED OFFICIAL USE

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4. ON JANUARY 16 FOLLOWING FINANCIAL RATES PREVAILED: LIRA SPOT EXCHANGE RATE WAS 684.25 LIRE PER DOLLAR, THREE-MONTH FORWARD RATE WAS 690.4 LIRE PER DOLLAR, WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI INDEX SINCE FEBRUARY 9, 1973 BASE PERIOD WAS AGAINST ALL MAJOR CURRENCIES 20.70 PERCENT, AGAINST THE DOLLAR 15.09 PERCENT, AND AGAINST EC CURRENCIES 24.99 PERCENT.

BLACK MARKET RATE IN MILAN WAS 766 LIRE PER DOLLAR,
THREE-MONTH EUROLIRA INTEREST RATE WAS 9.0 PERCENT,
LIRE INTERBANK FORTY-EIGHT HOUR RATE WAS 7.0625 PERCENT,
AND LIRA INTERBANK THREE-MONTH RATE WAS 7.6875 PERCENT.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, BALANCE OF PAYMENTS, FOREIGN EXCHANGE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME00847
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760019-1139
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760144/aaaabmvh.tel
Line Count: 119
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 25 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAR 2004 by izenbei0>; APPROVED <12 MAY 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS SUMMARY. BALANCE OF PAYMENTS FOR DECEMBER REGISTERED
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006